

NEW APPLICATION

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AZ CORP COMMISSION  
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Arizona Corporation Commission  
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FEB 10 2005

DOCKETED BY	<i>KJ</i>
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Attorneys for Coronado Utilities, Inc.

**BEFORE THE ARIZONA CORPORATION COMMISSION**

IN THE MATTER OF THE APPLICATION  
OF CORONADO UTILITIES, INC., AN  
ARIZONA CORPORATION, FOR  
AUTHORITY TO ISSUE SHORT AND  
LONG-TERM DEBT INSTRUMENTS IN  
CONNECTION WITH FINANCING THE  
ACQUISITION OF THE WASTEWATER  
UTILITY PLANT OF BHP COPPER, INC.  
AND CONSTRUCTING IMPROVEMENTS  
THERETO.

DOCKET NO. SW-04305A-05-0087

**CORONADO UTILITIES, INC.'S  
FINANCING APPLICATION**

Pursuant to A.R.S. § 40-302, Coronado Utilities, Inc. ("Coronado"), an Arizona corporation, respectfully seeks authority from the Arizona Corporation Commission ("Commission") to issue and deliver a combination of short and long-term tax-exempt debt instruments, as needed, in an amount not to exceed three million three hundred thousand dollars (\$3,300,000.00), which amount exceeds seven percent (7%) of total capitalization, to be repaid over a period of no more than twenty (20) years. Authority for this financing proposal is sought for the purpose of financing the acquisition of the BHP Copper ("BHP") wastewater treatment system and related appurtenances located near San Manuel, Arizona. In addition, the financing will be used to construct a new wastewater treatment facility to replace the current wastewater treatment facility, which is approximately fifty-two (52) years old and in need of upgrades to meet applicable governmental requirements, including the Arizona Department of Environmental Quality ("ADEQ") guidelines for best available design control technology.

1           **A. General Background.**

2           1. Coronado is an Arizona corporation concurrently seeking a Certificate of  
3 Convenience and Necessity ("CC&N") from the Commission for authority to provide wastewater  
4 treatment services within, and in the vicinity of, the town of San Manuel, Arizona.

5           2. Attached at **Exhibit 1** are copies of Coronado's proforma balance sheet and  
6 income statements for the first five (5) years of operation. Coronado will initially have a capital  
7 structure consisting of approximately 90% debt and 10% common equity. The current equity  
8 component, \$30,000.00, consists of common stock held by Coronado's membership, and paid in  
9 capital.

10          3. Coronado's local business office is located at c/o CT Corporation System; 3225 N.  
11 Central Avenue, Phoenix, Arizona, 85012. Its mailing address is 6825 E. Tennessee Avenue,  
12 Suite 401, Denver, CO 80224, and its telephone number is (303) 333-1250. Coronado's business  
13 manager is Jason Williamson, who is currently responsible for supervising the local operations of  
14 the company.

15          4. In addition to counsel herein undersigned, the persons responsible for overseeing  
16 and directing the conduct of this Financing Application is:

17                   Jason Williamson  
18                   Pivotal Utility Management, L.L.C.  
19                   6825 E. Tennessee Avenue, Ste. 527  
20                   Denver CO, 80224  
21                   (303) 333-1250

22 All requests for information should be directed to Mr. Williamson's attention, at the address set  
23 forth above, with a copy to the undersigned counsel for Coronado.

24           **B. Acquisition of BHP's Wastewater Assets.**

25           5. In June 1999, BHP Copper ("BHP") announced that it was closing down its  
26 mining operations in San Manuel, Arizona. Incidental to its mining operations, BHP also owned,  
operated and controlled a wastewater delivery and treatment system serving the plant site

1 operations and the community of San Manuel, which consists of approximately sixteen hundred  
2 (1600) residences and mobile homes (a population of roughly 4,000), and forty (40) commercial  
3 properties. However, the wastewater system is in need of upgrades to meet ADEQ guidelines for  
4 best available design control technology. The BHP mining and processing operation at San  
5 Manuel is in closure and the company is transitioning these services. BHP is no longer in a  
6 position to continue long-term operation of the waste water collection and treatment system.

7 6. On November 10, 2004, BHP entered into a Purchase Agreement ("Agreement")<sup>1</sup>  
8 with Coronado for the sale of approximately 84 acres of real property located in Pinal County,  
9 having located thereon a wastewater treatment plant and related improvements used in connection  
10 therewith. The purchase price for the wastewater system and related property is \$325,000.00.  
11 The purchase price shall be paid by the application of an Improvement Credit of \$249,999.00 in  
12 consideration of Coronado's agreement to design, permit, construct a new reclaimed water line  
13 from the purchased property to a transfer pond at the on-site golf course. The costs for these  
14 improvements are subject to a \$250,000.00 cap, with BHP responsible for any reasonable  
15 amounts over the cap. In addition, upon completion (but no later than August 10, 2006) of the  
16 wastewater treatment plant improvements, as approved by the Commission and Arizona  
17 Department of Environmental Quality ("ADEQ"), Coronado shall pay to BHP the sum of  
18 \$75,001.00 as additional consideration to complete the purchase transaction.

19 7. The Agreement requires Coronado to seek a CC&N from the Commission  
20 authorizing it to provide wastewater service to the town of San Manuel, in addition to  
21 authorization of Coronado's proposed modifications and upgrades of the existing wastewater  
22 treatment plant that is currently serving residents. That application is being filed concurrently  
23 herewith.  
24

25  
26 <sup>1</sup> A copy of the Agreement is filed as **Exhibit 1** in Coronado's concurrent Application for a Certificate of Convenience and Necessity.

1           8.     Pivotal Utility Management, L.L.C. ("Pivotal"), an affiliate of Coronado, has  
2 entered into a separate agreement with BHP to guaranty the performance of Coronado's  
3 obligations under the Agreement. Pivotal has operated and managed several Arizona public  
4 service corporations, including Pine Meadows Utilities, LLC, Sweetwater Creek Utilities, Bensch  
5 Ranch Utilities, LLC, Cross Creek Ranch Water Company and Verde Santa Fe Wastewater  
6 Company.<sup>2</sup>

7           9.     Pivotal has also entered into an Operation and Maintenance Agreement with BHP  
8 to operate and manage the current wastewater treatment facility during construction of the new  
9 wastewater treatment facility.

10          10.    Coronado intends to take ownership of the existing wastewater treatment plant,  
11 and make certain short-term improvements to the facility while it constructs a new wastewater  
12 treatment facility. Coronado is in the process of obtaining an Aquifer Protection Permit from  
13 ADEQ that will authorize it to provide wastewater service pursuant to state regulatory controls  
14 intended to protect the health and safety of wastewater customers. Furthermore, Coronado has  
15 arranged for access to low-cost financing that will allow the Company to upgrade existing  
16 facilities.

17           **C.     Municipal Leasing Credit Corporation – Terms of Proposed Debt.**

18          11.    The lender will be Municipal Leasing Credit Corporation ("MLCC"), a non-  
19 affiliated entity that provides tax-exempt financing to municipalities and qualifying private  
20 companies. MLCC has entered into an agreement with Coronado, attached hereto at **Exhibit 2**, to  
21 arrange, subject to Commission approval, the financing needed for the acquisition of the current  
22 wastewater treatment facility in San Manuel, Arizona, current real property and real property for  
23 expansion, as well as the eventual construction of a new wastewater treatment plant. MLCC will  
24 arrange financing in conjunction with the Pinal County Industrial Development Authority.

25 \_\_\_\_\_  
26 <sup>2</sup> On January 1, 2005, Pivotal Operations, LLC, an affiliate of Pivotal, was created to eventually take over the  
operations and management functions of some of these utilities.

1           12.    Financing will likely occur in three phases: 1) construction financing, to  
2 commence at the time all permits are obtained by Coronado and purchase of the existing  
3 wastewater treatment plant and related system is complete; 2) interim financing, if a short-term  
4 bridge loan is needed to cover the time when construction begins but before all permits have been  
5 obtained; and 3) the issuance of a permanent loan after the completion of all system  
6 improvements and a new wastewater treatment plant.

7           13.    While the material terms of the proposed financing have yet to be finalized  
8 between Coronado and MLCC, Coronado has granted MLCC the exclusive right to arrange the  
9 tax-exempt financing for the proposed improvements at an estimated cost of approximately  
10 \$3,000,000.00, for a term not to exceed twenty (20) years. In addition, the interest rate will float  
11 between approximately 6.00 to 7.00 percent through construction, and will become fixed at a rate  
12 within the 6.00 to 7.00 percent range upon completion, or earlier as agreed upon by both parties.

13           14.    As a result of the financing and paid-in capital, Coronado will have a capital  
14 structure consisting of approximately 90% debt and 10% equity. Coronado intends to improve  
15 this capital structure as it services its debt load. For instance, after five (5) years of operation,  
16 Coronado's capital structure will be approximately 77% debt and 23% equity. Coronado  
17 recognizes that this proposed capital structure is atypical for start-up utilities seeking certification  
18 from the Commission. However, these circumstances are unique. To begin with, Coronado is  
19 stepping in to remedy a situation in a manner that clearly serves the public interest. Moreover,  
20 the financing at issue – tax-exempt bonds – is extremely favorable. It would not be prudent for  
21 Coronado to decline the advantages such financing clearly provides it and its future rate payers.

22           15.    Attached hereto at **Exhibit 1** are proforma balance sheets and income statements  
23 for years 2005 through 2009, based on Coronado's projections for wastewater system operations  
24 in Pinal County. The projected revenues and operating income will allow Coronado to meet debt  
25 service requirements with an adequate margin of safety.

26



1 Jim Fisher, Executive Consultant  
2 Utilities Division  
3 Arizona Corporation Commission  
4 1200 West Washington Street  
5 Phoenix, Arizona 85007

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# **EXHIBIT**

**1**



PROFORMA INCOME STATEMENT (SEWER)  
Coronado Utilities, Inc.

	<u>Year One</u>	<u>Year Two</u>	<u>Year Three</u>	<u>Year Four</u>	<u>Year Five</u>
Residential Revenues	\$ 630,504	\$ 647,124	\$ 679,026	\$ 713,952	\$ 750,240
Commercial Revenues	57,600	57,600	57,600	57,600	57,600
Mobile Home Park	122,208	122,208	122,208	122,208	122,208
Revenues from School	9,600	9,600	9,600	9,600	9,600
Effluent Revenues	15,822	16,117	16,738	17,418	18,128
Establishment Fees	-	1,500	1,650	1,800	1,800
<b>Total estimated Revenues</b>	<b>\$ 835,734</b>	<b>\$ 854,149</b>	<b>\$ 886,822</b>	<b>\$ 922,578</b>	<b>\$ 959,576</b>
<b>OPERATING EXPENSES:</b>					
Salaries and Wages	\$ 55,166	\$ 91,000	\$ 91,000	\$ 91,000	\$ 91,000
Purchased Sewer Treatment Sludge Removal Expense					
Purchased Power for Pumping Equipment	24,000	80,640	80,640	80,640	80,640
Sewage Treatment and Testing					
Repairs and Maintenance	4,000	4,000	4,000	4,000	4,000
Office Supplies Expense					
Outside Services	116,460	121,860	127,800	134,280	140,760
Rents					
Transportation Expense					
General Insurance	5,000	5,000	5,000	5,000	5,000
Depreciation	-	75,638	151,936	153,256	154,576
Health and Life Insurance					
Income Taxes	103,601	24,158	103	6,227	13,355
Property Tax	50,896	51,270	52,307	54,070	56,210
Taxes Other than Property & Income					
Miscellaneous Expenses	132,361	166,140	169,407	172,983	176,683
<b>Total Operating Expense</b>	<b>\$ 491,485</b>	<b>\$ 619,706</b>	<b>\$ 682,193</b>	<b>\$ 701,455</b>	<b>\$ 722,223</b>
<b>OPERATING INCOME OR LOSS</b>	<b>\$ 344,249</b>	<b>\$ 234,443</b>	<b>\$ 204,629</b>	<b>\$ 221,123</b>	<b>\$ 237,353</b>
<b>OTHER INCOME / EXPENSE</b>					
Interest Income	(51,863)	(50,350)	(5,760)	(6,063)	(6,867)
Other Income					
Other Expense					
Interest Expenses	221,447	215,922	210,000	203,653	196,850
<b>TOTAL OTHER INCOME / EXPENSE</b>	<b>169,584</b>	<b>165,572</b>	<b>204,240</b>	<b>197,590</b>	<b>189,983</b>
<b>NET INCOME (LOSS)</b>	<b>\$ 174,665</b>	<b>\$ 68,871</b>	<b>\$ 389</b>	<b>\$ 23,533</b>	<b>\$ 47,370</b>

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## Miscellaneous Expenses Consists of:

Bad Debt Expense	\$ 83,573	\$ 85,415	\$ 88,682	\$ 92,258	\$ 95,958
Chemical Expense	6,388	38,325	38,325	38,325	38,325
Outside Services (Legal, Eng. & Acctg.)	5,000	5,000	5,000	5,000	5,000
Communications Expense	2,400	2,400	2,400	2,400	2,400
Director's Fees	30,000	30,000	30,000	30,000	30,000
Miscellaneous Expenses	5,000	5,000	5,000	5,000	5,000
<b>Total Miscellaneous Expenses</b>	<b>\$ 132,361</b>	<b>\$ 166,140</b>	<b>\$ 169,407</b>	<b>\$ 172,983</b>	<b>\$ 176,683</b>

Coronado Utilities, Inc.  
Projected Statements of Income  
For the 12 Months Ended

Exhibit  
Schedule 2  
Page 1  
Witness: Williamson

Line No.		Year				
		1	2	3	4	5
1						
2	Residential Revenues	\$ 630,504	\$ 647,124	\$ 679,026	\$ 713,952	\$ 750,240
3	Commercial Revenues	57,600	57,600	57,600	57,600	57,600
4	Mobile Home Park	122,208	122,208	122,208	122,208	122,208
5	Revenues from School	9,600	9,600	9,600	9,600	9,600
6	Effluent Revenues	15,822	16,117	16,738	17,418	18,128
7	Establishment Fees	-	1,500	1,650	1,800	1,800
8	<b>Total estimated Revenues</b>	<b>\$ 835,734</b>	<b>\$ 854,149</b>	<b>\$ 886,822</b>	<b>\$ 922,578</b>	<b>\$ 959,576</b>
9	<b>Expenses</b>					
10	Plant Operators	52,133	72,800	72,800	72,800	72,800
11	Employee Benefits at 25%	3,033	18,200	18,200	18,200	18,200
12	Bad Debt Expense	83,573	85,415	88,682	92,258	95,958
13	Purchased Power	24,000	80,640	80,640	80,640	80,640
14	Chemical Expense	6,388	38,325	38,325	38,325	38,325
15	Outside Services (Legal, Eng. & Acctg.)	5,000	5,000	5,000	5,000	5,000
16	Repairs & Maintenance	4,000	4,000	4,000	4,000	4,000
17	Outside Services (Management & Billings)	116,460	121,860	127,800	134,280	140,760
18	Insurance Expense	5,000	5,000	5,000	5,000	5,000
19	Communications Expense	2,400	2,400	2,400	2,400	2,400
20	Director's Fees	30,000	30,000	30,000	30,000	30,000
21	Depreciation net of Amortization of CIAC from schedules 1a and 1e	-	75,638	151,936	153,256	154,576
22	Miscellaneous Expenses	5,000	5,000	5,000	5,000	5,000
23	Income Taxes	103,601	24,158	103	6,227	13,355
24	Property Taxes (d)	50,896	51,270	52,307	54,070	56,210
25	<b>Total Operating Expenses</b>	<b>\$ 491,485</b>	<b>\$ 619,706</b>	<b>\$ 682,193</b>	<b>\$ 701,455</b>	<b>\$ 722,223</b>
26	<b>Operating income (loss)</b>	<b>\$ 344,249</b>	<b>\$ 234,443</b>	<b>\$ 204,629</b>	<b>\$ 221,123</b>	<b>\$ 237,353</b>
27	Less:					
28	Interest Expense (Income) on Work. Capital (c)	(51,863)	(50,350)	(5,760)	(6,063)	(6,867)
29						
30	Interest Expense Long-term Debt	221,447	215,922	210,000	203,653	196,850
31	<b>Net Income</b>	<b>\$ 174,665</b>	<b>\$ 68,871</b>	<b>\$ 389</b>	<b>\$ 23,533</b>	<b>\$ 47,370</b>
32						
33	(a) Per customer per month					
34	(b) Assumes an Annual Inflation of:					
35	(c) If Applicable					
36	(d) See Property Tax Calculation, Schedule 2b					
37						
38						

Coronado Utilities, Inc.  
Projected Balance Sheets  
For the Years Ended

Exhibit  
Schedule 1  
Page 1  
Witness: Williamson

Line No.	Beginning of Year	Label	1	2	3	4	5
1							
2							
3	Assets						
4							
5	Utility Plant	(a)	225,000	3,291,000	3,357,000	3,423,000	3,489,000
6	Accumulated Depreciation	(b)	-	(75,636)	(227,573)	(380,829)	(535,404)
7							
8	Cash		3,165,151	191,498	192,523	211,665	246,136
9							
10	Bond Discount		216,500	216,500	216,500	216,500	216,500
11	Total Assets		\$ 3,606,651	\$ 3,623,360	\$ 3,538,450	\$ 3,470,336	\$ 3,416,232
12							
13	Equity and Liabilities						
14							
15	Equity						
16							
17	Common Stock	(d)	292,363	292,363	292,363	292,363	292,363
18	Paid in Capital						
19	Retained Earnings	(e)	174,665	243,536	243,925	267,458	314,828
20	Total Equity		\$ 467,028	\$ 535,899	\$ 536,288	\$ 559,821	\$ 607,191
21							
22	Liabilities & Deferred Credits						
23	Long-Term Debt Payable, with Discount	(f)	3,139,623	3,057,221	2,968,898	2,874,227	2,772,753
24							
25	Advances in Aid of Construction			-	-	-	-
26	Contributions in Aid of Construction						
27	Less: Amortization	(g)	-	-	-	-	-
28	Customer Deposits	(h)	-	-	-	-	-
29		(i)	-	30,240	33,264	36,288	36,288
30	Total Liabilities and Deferred Credits		3,139,623	3,087,461	3,002,162	2,910,515	2,809,041
31							
32							
33							
34	Total Equity & Liab.		\$ 292,363	\$ 3,606,651	\$ 3,623,360	\$ 3,538,450	\$ 3,470,336
35	(a) Plant Additions (See Schedule 1a)						3,416,232
36	(b) Depreciation Computations (See Schedule 1a)						
37	(c) Change in cash (Please Schedule 3)						
38	(d) Common Stock issuance. (See Schedule 1b)						
39	(e) Profit or loss from operations (See Schedule 2)						
40	(f) Bonds Payable less repayments						
41	(g) Contributions in Aid of Construction (See Schedule 1e)						
42	(h) Amortization of Contributions in Aid of Construction, if applicable (See Schedule 1e)						
43	(i) Customer Deposits or Security deposits (2 times average bill)						

Exhibit  
Schedule 3  
Page 1  
Witness: Williamson

Line No.	1	2	3	4	5
1					
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**Coronado Utilities, Inc.**  
**Schedule for the Computation of Projected**  
**Property Taxes for the Years Ended**

Exhibit  
Schedule 2b  
Page 1  
Witness: Williamson  
Revised

Line No.		1	2	3	4	5
1						
2						
3	Revenue Component 1	\$ 835,734	\$ 835,734	\$ 835,734	\$ 854,149	\$ 886,82
4	Revenue Component 2	835,734	835,734	854,149	886,822	922,57
5	Revenue Component 3	835,734	854,149	886,822	922,578	959,57
6						
7	Average of 3 years of revenue, multiplied by 2	\$ 1,671,467	\$ 1,683,744	\$ 1,717,803	\$ 1,775,700	\$ 1,845,98
8	Add:					
9	Construction Work in Progress at 10%	0	0	0	0	0
10	Deduct:					
11	Book Value of Transportation Equipment	0	0	0	0	0
12						
13	Full Cash Value	\$ 1,671,467	\$ 1,683,744	\$ 1,717,803	\$ 1,775,700	\$ 1,845,98
14						
15						
16	Times Assessment Ratio	25.00%	25.00%	25.00%	25.00%	25.00
17						
18	Assessed Value	\$ 417,867	\$ 420,936	\$ 429,451	\$ 443,925	\$ 461,49
19						
20	Property Tax Rate (State Wide Rate Used)	12.18%	12.18%	12.18%	12.18%	12.18
21						
22	Computed Property Tax	\$ 50,896	\$ 51,270	\$ 52,307	\$ 54,070	\$ 56,21
23						
24						
25						
26						

**Coronado Utilities, Inc.  
Loan from Bond Issuance**

Exhibit  
Schedule 1f  
Page 1  
Witness: Williamson

Principle		\$ 3,216,500.00						
No. of Months		240						
Annual Interest Rate		6.960%						
Monthly Interest Rate		0.5800%						
Annuity Factor		129.38						
Monthly Payment		\$ 24,860.32						
Line No.	No.	Principle	Interest	Monthly Payment	Balance	Annual Interest Expense	Annual Principal Repayment	Annual Total Payment
1					\$ 3,216,500.00			
2	1	\$ 6,204.62	\$ 18,655.70	\$ 24,860.32	3,210,295.38			
3	2	6,240.61	18,619.71	24,860.32	3,204,054.77			
4	3	6,276.80	18,583.52	24,860.32	3,197,777.97			
5	4	6,313.21	18,547.11	24,860.32	3,191,464.76			
6	5	6,349.82	18,510.50	24,860.32	3,185,114.94			
7	6	6,386.65	18,473.67	24,860.32	3,178,728.28			
8	7	6,423.70	18,436.62	24,860.32	3,172,304.59			
9	8	6,460.95	18,399.37	24,860.32	3,165,843.63			
10	9	6,498.43	18,361.89	24,860.32	3,159,345.21			
11	10	6,536.12	18,324.20	24,860.32	3,152,809.09			
12	11	6,574.03	18,286.29	24,860.32	3,146,235.06			
13	12	6,612.16	18,248.16	24,860.32	3,139,622.90	\$ 221,446.75	\$ 76,877.10	\$298,323.84
14	13	6,650.51	18,209.81	24,860.32	3,132,972.40			
15	14	6,689.08	18,171.24	24,860.32	3,126,283.32			
16	15	6,727.88	18,132.44	24,860.32	3,119,555.44			
17	16	6,766.90	18,093.42	24,860.32	3,112,788.54			
18	17	6,806.15	18,054.17	24,860.32	3,105,982.39			
19	18	6,845.62	18,014.70	24,860.32	3,099,136.77			
20	19	6,885.33	17,974.99	24,860.32	3,092,251.44			
21	20	6,925.26	17,935.06	24,860.32	3,085,326.18			
22	21	6,965.43	17,894.89	24,860.32	3,078,360.75			
23	22	7,005.83	17,854.49	24,860.32	3,071,354.92			
24	23	7,046.46	17,813.86	24,860.32	3,064,308.46			
25	24	7,087.33	17,772.99	24,860.32	3,057,221.13	\$ 215,922.07	\$ 82,401.77	\$298,323.84
26	25	7,128.44	17,731.88	24,860.32	3,050,092.69			
27	26	7,169.78	17,690.54	24,860.32	3,042,922.91			
28	27	7,211.37	17,648.95	24,860.32	3,035,711.54			
29	28	7,253.19	17,607.13	24,860.32	3,028,458.35			
30	29	7,295.26	17,565.06	24,860.32	3,021,163.09			
31	30	7,337.57	17,522.75	24,860.32	3,013,825.51			
32	31	7,380.13	17,480.19	24,860.32	3,006,445.38			
33	32	7,422.94	17,437.38	24,860.32	2,999,022.44			
34	33	7,465.99	17,394.33	24,860.32	2,991,556.45			
35	34	7,509.29	17,351.03	24,860.32	2,984,047.16			
36	35	7,552.85	17,307.47	24,860.32	2,976,494.31			
37	36	7,596.65	17,263.67	24,860.32	2,968,897.66	\$ 210,000.37	\$ 88,323.47	\$298,323.84
38	37	7,640.71	17,219.61	24,860.32	2,961,256.95			
39	38	7,685.03	17,175.29	24,860.32	2,953,571.92			
40	39	7,729.60	17,130.72	24,860.32	2,945,842.31			
41	40	7,774.43	17,085.89	24,860.32	2,938,067.88			
42	41	7,819.53	17,040.79	24,860.32	2,930,248.35			
43	42	7,864.88	16,995.44	24,860.32	2,922,383.47			
44	43	7,910.50	16,949.82	24,860.32	2,914,472.98			
45	44	7,956.38	16,903.94	24,860.32	2,906,516.60			
46	45	8,002.52	16,857.80	24,860.32	2,898,514.08			
47	46	8,048.94	16,811.38	24,860.32	2,890,465.14			
48	47	8,095.62	16,764.70	24,860.32	2,882,369.51			
49	48	8,142.58	16,717.74	24,860.32	2,874,226.94	\$ 203,653.12	\$ 94,670.72	\$298,323.84
50	49	8,189.80	16,670.52	24,860.32	2,866,037.13			
51	50	8,237.30	16,623.02	24,860.32	2,857,799.83			
52	51	8,285.08	16,575.24	24,860.32	2,849,514.75			
53	52	8,333.13	16,527.19	24,860.32	2,841,181.61			
54	53	8,381.47	16,478.85	24,860.32	2,832,800.14			
55	54	8,430.08	16,430.24	24,860.32	2,824,370.07			
56	55	8,478.97	16,381.35	24,860.32	2,815,891.09			
57	56	8,528.15	16,332.17	24,860.32	2,807,362.94			
58	57	8,577.62	16,282.71	24,860.32	2,798,785.32			
59	58	8,627.37	16,232.95	24,860.32	2,790,157.96			
60	59	8,677.40	16,182.92	24,860.32	2,781,480.55			
61	60	8,727.73	16,132.59	24,860.32	2,772,752.82	\$ 196,849.73	\$ 101,474.12	\$298,323.84

1st 18 Months  
of Principal  
Payments

\$ 117,363.23

**Coronado Utilities, Inc.**  
**Debt Service Coverage**

Exhibit  
Schedule XX  
Page 1

Witness: Williamson

Line No.		<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
1	Operating Income	\$ 344,249	\$ 234,443	\$ 204,629	\$ 221,123	\$ 237,353
2	Depreciation	-	75,638	151,936	153,256	154,576
3	Income Taxes	103,601	24,158	103	6,227	13,355
4						
5	Available for Debt Service	\$ 447,850	\$ 334,239	\$ 356,668	\$ 380,605	\$ 405,283
6						
7	Annual Payments on Debt	298,324	298,324	298,324	298,324	298,324
8						
9	Debt Service (Line 6 divided by					
10	Line 8)	1.501	1.120	1.196	1.276	1.359
11						
12						
13						
14						
15	Required Debt Service equals	1.25 to 1				



# **EXHIBIT**

# **2**

November 22, 2004

Jason Williamson - 303-333-1250  
Pivotal Utility Management, L.L.C.  
6825 E. Tennessee Avenue, Ste. 401 547  
Denver, CO 80224

**MLCC**  
MUNICIPAL LEASING  
9200 Glenwood, 9th, 104  
Overland Park, KS 66212-1300  
Ph. 913.381.1900  
Fax 913.381.0105

Re: Acquisition of wastewater treatment facility, demolition of old plant, and construction of new facility for San Manuel, AZ (the "Project")

Dear Jason:

We are pleased to arrange the financing of the above-mentioned Project, to be owned and managed by Coronado Utilities, Inc. ("Coronado"), a new company affiliated with Pivotal Utility Management, L.L.C. ("Pivotal").

**Project Description:**

- a) Acquisition of the current wastewater treatment site and facility in San Manuel, AZ, now owned by BHP Copper, including additional land for expansion;
- b) Closure of the old plant; and
- c) Construction of a new wastewater treatment plant.

**Project Cost:** \$3,000,000 (est.)

**Term:** 20 years

**Mode:** Monthly

**Rate:** Floating rate through construction. Fixed at completion or earlier as agreed by both parties.

Amortization not to exceed 20 years.

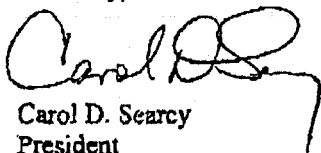
**Terms & Conditions:** See attached.

Based on the expected parameters set forth above, please sign below acknowledging and agreeing to the following on behalf of Pivotal and Coronado:

Municipal Leasing Credit Corporation is hereby granted an exclusive right to arrange the financing for this Project, subject to mutually acceptable terms, conditions, and documentation.

Please return this executed acknowledgment to us via fax (913.381.0105), and then mail the original to the address shown above. We look forward to working with you and procuring the funds needed to acquire the plant and ultimately build a new one for the benefit of the citizens of San Manuel, Arizona.

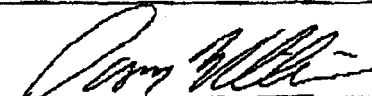
Sincerely,

  
Carol D. Searcy  
President

CDS:ebo

ACKNOWLEDGED AND AGREED TO-BY: Pivotal Utility Management, L.L.C. and  
Coronado Utilities, Inc.

By:  
Printed Name:  
Title:  
Date:

  
Jason Williamson  
Managing Member/ Director

11/30/04

**TERMS AND CONDITIONS  
SAN MANUEL WASTEWATER TREATMENT PLANT  
SAN MANUEL, AZ**



**MUNICIPAL LEASING**  
9200 Glenwood, Ste. 104  
Overland Park, KS 66212-1300

**OWNER and  
BORROWER/LESSEE:**

Coronado Utilities, Inc. ("Coronado")  
6825 E. Tennessee Avenue, Ste. 401 547  
Denver, CO 80224

Ph. 913.381.1900  
Fax 913.381.0105

**AFFILIATED  
COMPANY:**

Pivotal Utility Management, L.L.C. ("Pivotal")  
6825 E. Tennessee Avenue, Ste. 401 547  
Denver, CO 80224

**PROJECT:**

Acquisition of current wastewater treatment facility in San Manuel, AZ, including current land and land for expansion, and eventual construction of new plant.

**SECURITY:**

Lender will take a first lien on:

- 1). Wastewater Treatment Plant, including land
- 2). Sewer Lines
- 3). User Fees

**STRUCTURE:**

Tax-exempt Financing – not to exceed 20 years.

**CONSTRUCTION  
FINANCING:**

1. Construction financing will be incorporated with the entire project financing. Floating rates will be used until project completion, or earlier as agreed to by both parties. Financing will commence within sixty days after receipt of the allocation commitment from the State. No funds will be dispersed until all permit approvals have been received.

OR

2. Construction financing will be arranged to commence at the time all permits are obtained, permanent financing is approved and purchase of San Manuel Wastewater Treatment Plant is complete (estimated Fall, 2005). The take-out or permanent loan will commence at the completion of construction (estimated to be June, 2006). Rates will be indexed.

**REQUIREMENTS:**

Obtain Certificate of Convenience & Necessity from Arizona Corporation Commission.

Obtain all approvals needed for operation of current plant and construction of new plant.

**REQUIREMENTS:**  
(continued)

Obtain confirmation that no environmental hazards exist. Such confirmation, based on studies by BHP and review by Pivotal, must be acceptable to Lender.

**RATE INDEX:**

The financing rate quoted herein may be subject to adjustment at closing, for the construction and/or take-out loan. Rate will be indexed to a specified, published interest rate.

**END OF FINANCING:**

\$1.00  
Ownership stays with Coronado

**NET FINANCING AGREEMENT:**

This financing agreement will be absolutely net. Borrower/Owner shall be responsible for maintenance, insurance, taxes (if any), and all other costs and expenses.

**INSURANCE:**

Lessee shall furnish confirmation of all risk physical damage and bodily injury insurance covering the Project. Lessor shall be listed as Loss Payee/Additional Insured on the insurance certificate confirming said coverage.

**FINANCIAL INFORMATION:**

Please forward your Pro Forma operating budget.

**ISSUANCE COST:**

Borrower/Owner will be responsible for all issuance costs. Expenses may be capitalized into the loan and paid at the first drawdown.

**APPROVAL:**

Final approval is based on mutually acceptable documentation, credit and project approval.

**TIME LINE:**

August / September, 2004

Issue Letter of Intent to Fund the financing.

November 10, 2004  
December, 2004

Obtain signed sales agreement with Coronado and BHP Mines  
Begin financing process.  
IDA passes resolution to issue bond

January, 2004  
February 10, 2005  
March 10, 2005

Volume Cap application due at the State  
Begin permit process.  
Begin rate application with ACC  
Fund to acquisition account.

August 10, 2005  
September, 2005  
October, 2005

Complete permit process.  
Complete engineering drawings  
Begin construction on new plant.

# **EXHIBIT**

# **3**

## UNANIMOUS WRITTEN CONSENT OF THE DIRECTORS OF

### CORONADO UTILITIES, INC.

The undersigned, being all of the directors of Coronado Utilities, Inc. (the "Company"), an Arizona corporation, do hereby take the following action by unanimous written consent in lieu of a meeting of the directors, which consent may be executed in one or more counterparts, such resolutions having the same force and effect as if unanimously adopted at a duly called meeting of the Board of Directors of the Company, all pursuant to the authority of the statutes, regulations and case law governing Arizona for profit corporations and the By-laws of this Company, to wit:

RESOLVED, that the Company is authorized and empowered to negotiate, execute and deliver the BHP COPPER INC. -- SAN MANUEL OPERATIONS SAN MANUEL WASTEWATER COLLECTION / TREATMENT FACILITY OPERATION & MAINTENANCE SERVICES AGREEMENT (the "O&M Agreement"), to be entered into among BHP Copper, Inc., Pivotal Utility Management, LLC, and the Company, and the PURCHASE AGREEMENT (the "Purchase Agreement") to be entered into between BHP Copper, Inc., a Delaware corporation, as Seller, and the Company, an Arizona corporation, as Buyer, First American Title Insurance Company, as Escrow Agent, together with any and all documents, certificates, statements, instruments and agreements (collectively, and together with the O&M Agreement and the Purchase Agreement and the exhibits attached to and/or incorporated into such agreements, the "BHP San Manuel Documents").

FURTHER RESOLVED, that each of the President, Vice President, Secretary or Treasurer or other officer or agent of this Company designated in writing by such President or Vice President, Secretary or Treasurer be, and is hereby, authorized, empowered and directed, to execute the BHP San Manuel Documents and any and all related documents, certificates, statements, instruments or agreements necessary to carry out and fully perform the provision of the O&M Agreement and to consummate the purchase, acquisition and receipt of the Real Property described in these resolutions, including, but not limited to, the Purchase Agreement, and all related documents, certificates, statements, instruments, and agreements; as may be necessary, desirable or appropriate to carry out and perform the O&M Agreement and consummate the purchase, acquisition and receipt of the Real Property, and to fully carry out the agreements and obligations of the Company, and to give effect to these resolutions;

RESOLVED, that Company be, and hereby is authorized, directed and empowered to purchase, acquire and receive the Real Property (as such term is defined and described in the Purchase Agreement), together with fixtures and personal property described in the Purchase Agreement for such consideration as is stated in the Purchase Agreement;

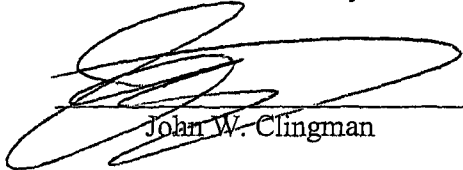
FURTHER RESOLVED, that in connection with performing the obligations of the Company under or in connection with the BHP San Manuel Documents, each of the President, Vice President, Secretary or Treasurer or other officer or agent of this Company designated in writing by such President Vice President, Secretary or Treasurer be, and is hereby, authorized, empowered and directed, to prepare any applications or similar documents and to file such documents with the Arizona Corporation Commission, the Arizona Department of

Environmental Quality, any other agency, department or division of the State of Arizona, or any city or county department, commission or division or any agency, office, commission or department of the federal government in connection with the procurement of all certificates, authorizations or permits necessary, desirable or proper to fully carry out and perform the O&M Agreement and the Purchase Agreement including, but not limited to, the Certificate of Convenience and Necessity, the Aquifer Protection Permit and any related certificates, authorizations or permits, together with all related documents, certificates, statements, instruments, and agreements; as may be necessary, desirable or appropriate to effect the procurement of such certificates, authorizations or permits.

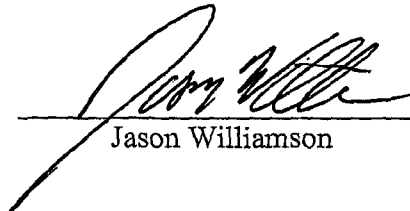
FURTHER RESOLVED, that the Board of Directors of the Company has determined that the transactions authorized by the foregoing resolutions will not contravene, violate or otherwise constitute a default under any provisions of any law, ordinance, regulation, contract indenture, decree or agreement to which this Company is a party or by which it is bound; and.

FURTHER RESOLVED, that with regard to the matters and things described in the foregoing resolutions, any and all prior or contemporaneous actions, omissions and other conduct of the officers of the Company, its agents and attorneys are hereby in all respects ratified, confirmed and approved.

Dated this 1st day of November, 2004.



John W. Clingman



Jason Williamson

\_\_\_\_\_  
Dwight L. Zemp